Filing at a Glance

Company: Arch Insurance Company

Product Name: GAP Program

SERFF Tr Num: WESA-125871371

State: Arkansas

TOI: 17.0 Other Liability - Claims Made/Occurrence

SERFF Status: Closed

State Tr Num: #31269 $100

Sub-TOI: 17.0022 Other

Co Tr Num: ARCH-08-217-R

State Status: Fees verified and received

Filing Type: Rate/Rule

Co Status:

Reviewer(s): Edith Roberts, Brittany Yielding

Author: Westmont Associates

Disposition Date: 11/04/2008

Date Submitted: 10/24/2008

Disposition Status: Exempt from Review

Effective Date Requested (New): On Approval

Effective Date (New):

Effective Date Requested (Renewal): On Approval

Effective Date (Renewal):

State Filing Description:

General Information

Project Name: Submission of GAP product - New Program Filing

Status of Filing in Domicile: Pending

Project Number: ARCH-08-217

Domicile Status Comments: Pending with MO DOI

Reference Organization: None

Reference Number: None

Reference Title: None

Advisory Org. Circular: None

Filing Status Changed: 11/04/2008

State Status Changed: 11/04/2008

Deemer Date:

Corresponding Filing Tracking Number:

Filing Description:

Enclosed please find Arch Insurance Company’s (Arch) Guaranteed Auto Protection (“GAP”) new program submission. The filing contained herein constitutes a filing of a new program for Arch and does not replace any previous filed or approved materials. A letter permitting Westmont Associates, Inc. to submit this filing on Arch’s behalf is enclosed.

Arch is filing its new Guaranteed Auto Protection program (GAP). GAP programs provide debt cancellation agreements that cancel a borrower's indebtedness that exceeds a primary insurer's settlement in the event of a total theft or total constructive loss. Please refer to the attached filing memorandum for additional details.

Please find enclosed the Company's GAP policy form and endorsements. A forms listing has been provided for your reference. Also, please find attached the Company's GAP rating plan for your review.

Your approval or acknowledgement otherwise of this submission is respectfully requested. Thank you for your attention to this matter.

Company and Contact

Filing Contact Information

(This filing was made by a third party - westmontassociatesinc)

Wesley Pohler, AVP	wes@westmontlaw.com
25 Chestnut Street	(856) 216-0220 [Phone]
Haddonfield, NJ 08033	(856) 216-0303[FAX]

Filing Company Information

Arch Insurance Company	CoCode: 11150	State of Domicile: Missouri
300 First Stamford Place	Group Code: 1279	Company Type: Property and Casualty
5th Floor East		
Stamford, CT 06902	Group Name:	State ID Number:
(203) 388-3220 ext. [Phone]	FEIN Number: 43-0990710	

Filing Fees

Fee Required?	Yes
Fee Amount:	$100.00
Retaliatory?	No
Fee Explanation:	AR Fee - Rates
Per Company:	No

COMPANY	AMOUNT	DATE PROCESSED	TRANSACTION #

Arch Insurance Company	$0.00	10/24/2008

CHECK NUMBER	CHECK AMOUNT	CHECK DATE
31269	$100.00	10/23/2008

Correspondence Summary

Dispositions

Status	Created By	Created On	Date Submitted
Exempt from Review	Edith Roberts	11/04/2008	11/04/2008

Disposition

Disposition Date: 11/04/2008
Effective Date (New):
Effective Date (Renewal):
Status: Exempt from Review
Comment:

Company Name:	Overall % Rate Impact:	Written Premium Change for this Program:	# of Policy Holders Affected for this Program:	Premium:	Maximum % Change (where required):	Minimum % Change (where required):	Overall % Indicated Change:
Arch Insurance Company	0.000%	$0	0	$0	0.000%	0.000%	0.000%

Item Type	Item Name	Item Status	Public Access
Supporting Document	Rate Support - NEW PROGRAM	Accepted for Informational Purposes	Yes
Supporting Document	Letter of Authorization	Accepted for Informational Purposes	Yes
Supporting Document	Cover Letter	Accepted for Informational Purposes	Yes
Rate	Arch GAP Rating Manual	Accepted for Informational Purposes	Yes

Rate Information

Rate data applies to filing.

Filing Method:	File and Use
Rate Change Type:	Neutral
Overall Percentage of Last Rate Revision:	0.000%
Effective Date of Last Rate Revision:	
Filing Method of Last Filing:	None

Company Rate Information

Company Name:	Overall % Indicated Change:	Overall % Rate Impact:	Written Premium Change for this Program:	# of Policy Holders Affected for this Program:	Premium:	Maximum % Change (where required):	Minimum % Change (where required):
Arch Insurance Company	0.000%	0.000%	$0	0	$0	0.000%	0.000%

Rate/Rule Schedule

Review Status:	Exhibit Name:	Rule # or Page #:	Rate Action	Previous State Filing Number:	Attachments
Accepted for Informational Purposes	Arch GAP Rating Manual	Pages 1 through 6	New		Arch GAP Rate Manual.pdf

ARCH INSURANCE COMPANY
COUNTRYWIDE
RATE/RULE PAGE
GAP PROGRAM

Rates are developed for an insured lender/lessor based on the mixture of loan term, loan to value, loan/lease interest rate, deductible, projected depreciation rates, and other factors enumerated in a schedule rating plan.

1) Base Rates

Autos and Light Trucks

Loan/Lease Term	Base Rate (120% LTV; $1,000 Deductible)
0 – 60 months	$ 50
61 – 72 months	$115
73 – 84 months	$150

Motorcycles

Loan/Lease Term	Base Rate (120% LTV; $1,000 deductible)
0 – 60 months	$ 100
61 – 72 months	$ 155
73 – 84 months	$ 180

The base rate assigned to an insured lender/lessor will be modified by the following factors.

2) Loan to Value (LTV) Maximum Dealer-Specific Option
Each insured lender/lessor will select a maximum allowable loan-amount-to-insured-value ratio at the time of financing. The base rate will be multiplied by the applicable Loan to Value Maximum relativity from the following table to produce the modified base rate for the lender.

Loan to Value Maximum Ratio	Motorcycles Relativity	All Other Relativity
150%	1.38	1.15
140%	1.25	1.13
130% and (120% + 30%)	1.13	1.07
125%	1.06	1.03
120%	1.00	1.00
110%	0.90	0.90
105%	n/a	0.85 (commercial only)

* Allows up to 120% of the value of the vehicle plus a separate amount of up to 30% of vehicle value for add-on items, such as vehicle service contracts, theft products, GAP, chemical products, credit life and A&H, etc.

3) Loan/Lease Interest Rate (Dealer-Specific Option to have Loan-Specific rate tables based on APR or one rate schedule table based on dealer's average interest rate)
Multiply the applicable relativities from the following table, separately for each vehicle, to the modified base rate calculated using the procedure found in Rule 2, above, for the lender/lessor.

Loan/Lease Interest Rate	Relativity
0% – 9.99%	1.00
10.00% – higher	1.27
Interest rate relativity not applied*	1.14 (dealer-specific average**)**

*Factor applied when policyholder does not wish to apply Loan/Lease Interest Rate factor.

4) Deductible Coverage (Dealer-Specific Option)
Each insured lender/lessor will select a deductible buy-back coverage reimbursement maximum. The applicable relativity from the following table will be applied to the modified base rate for the lender/lessor calculated using the procedure found in Rule 2 above.

Deductible	Relativity
No Coverage	0.76
Up to $500 Coverage	0.95
$501 – $1,000	1.00

5) Recreational Vehicles, Watercraft and other vehicle types not specifically excluded
These types of loan collateral shall be surcharged by the percentage that results from dividing the average vehicle value in the loan portfolio by the average for Light Trucks and Autos, based on information derived from the Arch Insurance Company portfolio. All other rating factors (2 through 4 plus Schedule Rating Plan) apply. This rule does not apply to commercial vehicles which are specifically addressed in Policy Endorsements Item K.

6) Schedule Rating Plan
The rate for each covered vehicle, calculated following the procedures in Rules 1, 2, 3, and 4 above, is further modified by the application of appropriate debits and credits from a schedule rating plan. The resulting rate is the final rate for that vehicle. See Exhibit A, Schedule Rating Plan.

7) Terms Exceeding Eighty-Four (84) Months
The outstanding balance, for purposes of claims settlement, for loan terms over 84 months will be determined by amortizing the loan as if it had a term of 84 months. The rate for 84 month term loans shall apply.

8) Truncation Rule
By mutual consent of the Lender/Lessor and the Insurer, for the purpose of claims settlement loans may be amortized over their original term with coverage terminating (truncating) eighty-four (84) months after the loan origination date by use of the Alternate Rating Model and charging premium for only the eighty-four months of exposure. Endorsement 00 GAP0019 00 05 08 shall apply.

9) Rating factors are to be applied in a multiplicative fashion
For example, base rate * ltv relativity * deductible relativity.

10) Alternative refund methods
If an alternative refund method is selected, surcharges or credits as applicable will be applied.

11) Minimum premium
The minimum premium for any one loan after application of all applicable rating rules.

POLICY ENDORSEMENTS

A. Adjusted Limits of Liability Endorsement – A - Primary insurance settlement based on the greater of actual primary insurer's loss settlement or the National Auto Dealers Association (NADA) full retail value (Endorsement 00 GAP0012 00 02 08)). Reduce premium by 6.5%.

B. Adjusted Limits of Liability Endorsement – B - Primary insurance settlement based on the greater of actual primary insurer's loss settlement or 90% of the National Auto Dealers Association (NADA) full retail value (Endorsement 00 GAP0009 00 02 08). Reduce premium by 2.5%.

C. Exclusion of Unearned Fees - Loss reduced by unearned portion of fee charged by lender/dealer (Endorsement 00 GAP0011 00 02 08). Reduce premium by 8%.

D. Delinquent Payments Endorsement - Coverage provided for two delinquent payments (Endorsement 00 GAP0008 00 02 08). Increase premium by 10%.

E. Additional Benefit Endorsement provides a $1,000 benefit if a replacement vehicle is purchased from the same dealer that sold the GAP coverage or financed with the lender that financed the original vehicle in states permitting this benefit. A GAP loss payment must be paid in order for coverage to apply (Endorsement 00 GAP0007 00 02 08). Additional charge of $25 per loan.

F. Broad Form Additional Benefit Endorsement provides a $1,000 benefit if a replacement vehicle is purchased from the same dealer that sold the GAP coverage or is financed with the lender that financed the original vehicle in states permitting this benefit. A GAP loss payment is not required for coverage to apply (Endorsement 00 GAP0006 00 02 08). Additional charge of $30 per loan.

G. Skipped Payments – Allows Coverage for skipped payments without penalty. Because the loan amortizes at a slower pace, the rate must be surcharged. The loan must be subject to a pre-arranged program for skipping a specified number of payments on an annual basis (Endorsement 00 GAP0017 00 02 08). Surcharge per each annual payment skipped: 40%.

H. Repossessed Vehicles Coverage – extends two months of additional coverage to the lender for vehicles that have been repossessed (Endorsement 00 GAP0022 00 09 08). Surcharge: $2.00 per loan.

I. Adjusted Vehicle Value at Loan/Lease – Kelly – The lesser of (1) the manufacturer's suggest retail price, (2) the selling price of the vehicle, or (3) the vehicle's retail value from the current Kelly Blue Book Used Vehicle Guide at the date of loan or lease (Endorsement 00 GAP0016 00 02 08). Increase premium by 12%.

J. Lease Termination Fees – Includes disposition fees, termination fees or penalty fees built into or added to the initial lease balance up to a maximum amount per covered vehicle (Endorsement 00 GAP0010 00 02 08). Increase premium by 4% per $100 of coverage.

K. Commercial Truck Endorsement – This type of loan collateral shall be surcharged by the percentage that results from dividing the average vehicle value in the loan portfolio by the average for new and used Light Trucks and Autos, based on information derived from the Arch Insurance Company portfolio (Endorsement 00 GAP0003 00 02 08).

L. Commercial Trailer Endorsement – This type of loan collateral shall be surcharged by the percentage that results from dividing the average vehicle value in the loan portfolio by the average for new and used Light Trucks and Autos, based on information derived from the Arch Insurance Company portfolio (Endorsement 00 GAP0018 00 02 08).

M. Exclusion of Prior Indebtedness – Adjust the unpaid net balance definition M of the policy to exclude any portion of the original loan balance that was advanced for the purpose of paying off prior debts of the borrower, up to a maximum amount (Endorsement 00 GAP0015 00 02 08).

1. In a state which requires the itemization of prior indebtedness and enforces the verification of correct documentation, a reduction of 30% is allowed.
2. In a state which requires the itemization of prior indebtedness and does not enforce the requirements, a reduction of 20% is allowed.
3. Where there is no legal or regulatory support, a reduction of 10% is allowed.

N. Coverage for Balloon with Loan Notes/Leases – Adjust the loss settlement definition as the lesser of (a) the balloon or residual amount stated in the loan contract or (b) the residual value of the vehicle shown in the most current edition of the Automobile Lease Guide (ALG), (Endorsement 00 GAP0004 00 07 08).

Surcharges are based on a proprietary model (see Alternate Model Rating) that amortizes leases to the Automotive Lease Guide (ALG) average residual in conjunction with normal vehicle depreciation tables. Leases and balloon note losses will only be settled based on the ALG residual value.

O. Coverage for Loans with Non-Uniform Payments – Modifies condition B(2) to allow coverage for loans with non-uniform payments. Premium shall be adjusted by comparing amortization tables. Maximum surcharge will be 45%. (Endorsement 00 GAP0021 00 07 08 applies)

Alternate Model Rating

At the mutual agreement of the insured lender/lessor and the insurer, the rate for each vehicle, the lender/lessor's entire portfolio or a portion thereof, may be calculated using the model described below. When appropriate data for each vehicle or the average characteristics of the portfolio to be insured can be made available to the insurer, this model can more accurately reflect the interactions between rating variables than any standard rate plan and can allow rating variables to be reflected most accurately at all intermediate values. The model is specified, as follows:

A. GAP Pure Loss Cost (Monthly)

On a monthly basis, calculate the GAP (Loan/Lease Deficiency Balance) as follows:

1. For each month, n, calculate the Expected ACV ($ExpACV_n$) at the middle of the month by applying the Expected Semi-Monthly Vehicle Depreciation Rate (MDR_i) commencing with the Vehicle Value at Loan/Lease inception (ACVInc).

$$ExpACV_n = [(ACVInc) * \Pi_{i=1, (2n-1)} (1-MDR_i)]$$

(n = number of months from loan/lease inception)

2. Calculate the Expected Net Outstanding Loan/Lease Balance ($ExpLB_n$) as the amortized loan/lease balance at the middle of each month of the loan's term.

3. Subtract the Expected ACV from the Expected Net Outstanding Loan/Lease Balance at the middle of month n ($ExpLB_n$) to calculate GAP_n. (The GAP loss if a total vehicle loss occurs in Month, n.) If Expected Net Outstanding Loan/Lease Balance–Expected ACV is less than or equal to \$0, then GAP_n is \$0. If this value is greater than \$0, the GAP_n equals the sum of this value, the Expected Deductible Buy Back and the Expected Additional Benefit.

$$GAP_n = (ExpLB_n) - [(ACVInc) * \Pi_{i=1, (2n-1)} (1-MDR_i)] + [\text{Expected Deductible Buyback}] + [\text{Additional Benefit} * \text{Annual Benefit Frequency}],$$
$$\text{If } (ExpLB_n) - [(ACVInc) * \Pi_{i=1, n} (1-MDR_i)] > 0$$

$$GAP_n = 0,$$
$$\text{If } (ExpLB_n) - [(ACVInc) * \Pi_{i=1, n} (1-MDR_i)] <= 0$$

4. Multiply GAP_n by $(1+ INT)^{-2n+1}$, where INT is the semi-monthly "Interest Rate Available for Investment on Unearned Premium and Loss Reserves", to produce the discounted GAP_n ($DGAP_n$):

$$DGAP_n = (1 + INT)^{-2n+1} *$$

***Interest rate for Treasury Notes at maturity equal to the average duration of expected GAP payout pattern. Note: semi-monthly interest rate = (annual interest rate) ^(1/24)**

B. Rating Model Annual Loss Frequency (ALF)

This is the expected number of theft or collision total vehicle losses per earned vehicle year. These losses will result in GAP losses if the outstanding loan value exceeds the current vehicle value at the time of the vehicle loss. Based on data analyzed by Arch, annual loss frequency is positively correlated with "vehicle loan/lease interest rate – prime rate at time of purchase/lease". This result is consistent with the widely known inverse correlation between creditworthiness and personal auto insurance claim frequency. Using data collected for a number of lender/lessor portfolios, we have found separate positive linear relationships between the excess of loan/lease interest rate over prime rate and total loss frequency for new and used vehicles. Annual loss frequency is calculated in the rating model using these fitted relationships.

C. Rating Model Discounted GAP Pure Premium (DGAPPP)

1. Calculate the monthly loss frequency (MLF) as the Annual Loss Frequency (ALF) divided by 12

2. Calculate the total discounted GAP Pure Premium (DGAPPP) as the sum of $DGAP_n$ x MLF_n for n = 1 to GAP Coverage Term,

That is:

$DGAP = DGAP_1 \times MLF_1 + DGAP_2 \times MLF_2 + DGAP_3 \times MLF_3 + \ldots DGAP_N \times MLF_{N,}$

Where **N =** GAP Coverage Term in months.

D. Rating Model GAP Base Rate (GAPBR)

1. Calculate the total expense, profit and contingency ratio (ER)
2. Calculate the permissible loss ratio (PLR) by subtracting the total expense profit and contingency ratio from 1.000.
3. Calculate the final GAP Base Rate (BR) by multiplying the discounted GAP pure premium by the loss adjustment expense factor (LAEF) and then dividing by the permissible loss ratio (PLR).

$$GAPBR = (DGAPPP) \times (LAEF) / (PLR)$$

E. Rating Model Final Rates

All rates and final premiums will be developed using the rating factors and methodology described in Steps **2 and 3,** and subject to variations in final rates, reflecting the schedule of debits and credits per the Schedule Rating Plan (see #4 above).

Exhibit A

Schedule Rating Plan

Risk Selection Characteristics	Credit	Debit
Spread of Risk Insured places GAP on higher/lower percentage of total loans/leases. It is assumed that adverse selection is minimized if a higher percent is insured.	15%	15%
Information Quality and Expense More definitive information regarding the loan portfolio composition and history with GAP insurance allows greater underwriting confidence. In addition, those lenders that have volume allow for greater pricing accuracy based on their portfolio characteristics.	15%	15%
Program Administration The ability to report loan and claim information electronically reduces cost and adds to information accuracy. In addition, other aspects of program administration my increase or decrease expense costs.	15%	15%
Mix of Vehicle Make/Model Rates of depreciation vary significantly based on the vehicle makes and models that are predominate in the loan portfolio. Projected depreciation rates are acquired from a nationally recognized research firm that specializes in vehicle value projection.	25%	25%

Subject to a maximum debit/credit of +/- 40%

Supporting Document Schedules

		Review Status:	
Satisfied -Name:	Rate Support - NEW PROGRAM	Accepted for Informational Purposes	11/04/2008

Comments:

Attached are the supporting memo and exhibits.

Attachments:

GAP Countrywide filing Exhibits 2008 09 final.pdf
gap filing memorandum 2008 09 04.pdf

		Review Status:	
Satisfied -Name:	Letter of Authorization	Accepted for Informational Purposes	11/04/2008

Comments:

Attached is the letter of authorization

Attachment:

2008 Use this Letter.pdf

		Review Status:	
Satisfied -Name:	Cover Letter	Accepted for Informational Purposes	11/04/2008

Comments:

Attached is the cover.

Attachment:

GAP DRAFT COVER - Rates.pdf

ARCH INSURANCE COMPANY
GAP Program

Calculation of Permissible Loss Ratio
Annual Statement Line - Credit (IEE line 28)

		Average 2003-2007 All Lines	Average 2003-2007 Credit	Selected
(1)	Commission & Other Acquisition Expense	21.3%	44.2%	15.0%
(2)	General Expense	4.6%	4.9%	4.6%
(3)	Taxes, License, & Fees	2.8%	2.7%	3.0%
(4)	Target Pre-Tax Underwriting profit and contingency provision			5.0%
(5)	Total Expenses			27.6%
(6)	Permissible Loss and Loss Adjustment Expense Ratio			72.4%

(1) See Exhibit 2 - IEE experience and selected expenses - commission + other acquisition
(2) See Exhibit 2 - IEE experience and selected expenses
(3) See Exhibit 2 - IEE experience and selected expenses
(4) See Exhibit 3 - Target Underwriting Profit
(5) (1)+(2)+(3)+(4)
(6) 100%-(5)

ARCH INSURANCE COMPANY
GAP Program

Historic IEE experience and selected expenses

Using Part III - Allocation to Lines of Direct Business Written
(000) Omitted

Annual Statement Line - Credit (IEE line 28)

		2003	2004	2005	2006	2007	Average
(1)	Premiums Written	21,491	37,337	37,862	41,415	47,749	185,854
(2)	Premiums Earned	18,699	33,741	37,924	31,888	40,027	162,279
(3)	Commission and Brokerage Expenses Incurred	8,382	12,785	13,275	16,762	18,756	69,960
(4)	As a ratio of Written Premium	39.0%	34.2%	35.1%	40.5%	39.3%	37.6%
(5)	Taxes Licenses & Fees Incurred	616	1,052	1,248	1,043	1,079	5,038
(6)	As a ratio of Written Premium	2.9%	2.8%	3.3%	2.5%	2.3%	2.7%
(7)	Other Acquisitions, field Supervision, and Collection Expenses	1,140	2,512	2,698	2,971	2,789	12,110
(8)	As a ratio of Written Premium	5.3%	6.7%	7.1%	7.2%	5.8%	6.5%
(9)	General Expenses Incurred	655	1,606	1,585	1,463	2,679	7,988
(10)	As a ratio of Earned Premium	3.5%	4.8%	4.2%	4.6%	6.7%	4.9%

Total IEE

		2003	2004	2005	2006	2007	Average
(11)	Premiums Written	693,651	930,988	1,091,913	1,254,159	1,311,392	5,282,103
(12)	Premiums Earned	550,689	865,236	1,020,043	1,193,780	1,260,131	4,889,879
(13)	Commission and Brokerage Expenses Incurred	115,973	141,197	152,989	183,591	189,789	783,539
(14)	As a ratio of Written Premium	16.7%	15.2%	14.0%	14.6%	14.5%	14.8%
(15)	Taxes Licenses & Fees Incurred	18,991	25,896	35,037	32,210	36,367	148,501
(16)	As a ratio of Written Premium	2.7%	2.8%	3.2%	2.6%	2.8%	2.8%
(17)	Other Acquisitions, field Supervision, and Collection Expenses	36,782	62,626	77,814	89,958	76,591	343,771
(18)	As a ratio of Written Premium	5.3%	6.7%	7.1%	7.2%	5.8%	6.5%
(19)	General Expenses Incurred	21,133	40,040	45,700	44,308	73,588	224,769
(20)	As a ratio of Earned Premium	3.8%	4.6%	4.5%	3.7%	5.8%	4.6%

ARCH INSURANCE COMPANY
GAP Program

Target Pre-Tax Underwriting profit and contingency provision
Annual Statement Line - Credit (IEE line 28)

(1)	Target After-Tax Return on Equity	11.0%
(2)	After-Tax Investment Yield From Reserves and Surplus	2.2%
(3)	Required After-Tax Underwriting Profit Margin	8.8%
(4)	Arch Insurance Company 2007 Earned Premium	1,260,131,000
(5)	Arch Insurance Company 2007 Statutory Surplus	540,547,567
(6)	Arch Insurance Company 2006 Statutory Surplus	518,923,903
(7)	2007 Earned Premium to Surplus	2.40
(8)	Selected Earned Premium to Surplus	2.70
(9)	Target After Tax Underwriting Profit	3.2%
(10)	Federal Income Tax Rate	35.0%
(11)	Target before Federal Income Tax Underwriting Profit	5.0%

(1) See Exhibit 4 - Industry ROE
(2) See Exhibit 5 - Investment Income
(3) (1)-(2)
(4) IEE - Part III Allocation to Lines of Direct Business Written line 34
(5) Arch 2007 annual statement, page 4, line 39 current year
(6) Arch 2007 annual statement, page 4, line 39 prior year
(7) (4) divided by average of (5) and (6)
(8) Based on average of AM Bests Capital to Premium ratios for Comm. Auto Phys. Dam and Other Liability - Occurrence
(9) (3) divided by (8)
(10) projected
(11) (9)/[1-(10)]

ARCH INSURANCE COMPANY
GAP Program

Industry ROE
Annual Statement Line - Credit (IEE line 28)

			After Tax Return on Equity
(1)		2002	-5.0%
(2)		2003	17.9%
(3)		2004	13.4%
(4)		2005	10.0%
(5)		2006	18.9%
(6)	Average		11.0%
(7)	Selected		11.0%

(1) to (5) Best's Aggregates and Averages

ARCH INSURANCE COMPANY
GAP Program

Investment Income

	2002	2003	2004	2005	2006	2007	total 2003-2007	Selected	Ratio to up
All Lines (net of reinsurance)									
(1) Net Earned Premium		258,795,956	191,223,497	137,408,665	149,104,948	249,877,531	986,410,597		
(2) Surplus	247,750,057	249,429,451	337,017,102	476,122,208	518,923,903	540,547,567	2,122,040,231		215%
(3) Unearned Premium	66,818,592	93,812,312	56,514,162	57,814,328	79,749,753	141,973,882	429,864,437		44%
(4) Loss Reserves	25,110,949	147,594,286	206,079,735	223,287,066	250,877,675	423,100,783	1,250,939,545		127%
(5) Total Surplus and Reserves	339,679,598	490,836,049	599,610,999	757,223,602	849,551,331	1,105,622,232	3,802,844,213		386%
(6) Reserves to surplus ratio		0.97	0.78	0.59	0.64	1.05	0.79	0.92	
(7) Two Year Average Surplus and Reserves		415,257,824	545,223,524	678,417,301	803,387,467	977,586,782	3,419,872,896		
(8) Net Investment Income		10,490,971	9,668,077	12,948,320	20,714,351	27,490,236	81,311,955		
(9) Realized Capital Gains		2,017,644	2,160,424	(2,540,307)	(4,124,845)	(902,353)	(3,389,437)		
(10) Unrealized Capital Gains		1,411,712	7,745,831	20,819,313	27,402,558	15,966,604	73,346,018		
(11) Total Investment Income		13,920,327	19,574,332	31,227,326	43,992,064	42,554,487	151,268,536		
(12) Before Tax Investment Income Yield on reserves and surplus		3.4%	3.6%	4.6%	5.5%	4.4%	4.4%	4.4%	
(13) Tax Rate on Investment Income								17.5%	
(14) Investment Income Yield After Taxes on reserves and surplus								3.6%	
Credit (Direct of Reinsurance)									
(15) Direct Earned Premium		18,699	33,741	37,924	31,888	40,027	162,279	305,859	
(16) Surplus		50,487	91,101	102,395	86,098	108,073	438,153	825,819	270%
(17) Unearned Premium		5,976	9,572	9,510	19,037	26,760	70,855	135,734	44%
(18) Loss Reserves		2,296	4,212	4,734	5,211	7,391	23,844	45,392	15%
(19) Total Surplus and Reserves		58,759	104,885	116,639	110,346	142,224	532,853	1,006,946	328%
(20) Reserves to surplus ratio		0.16	0.15	0.14	0.28	0.32	0.22	0.27	
(21) Expected investment Income to surplus								2.4%	
(22) Selected after tax investment Income to surplus								2.2%	

(1) A.S.. Statement of Income, Line 1
(2) A.S.. Liabilities, Surplus, and other funds line 35
(3) 2008 A.S.. Liabilities, Surplus, and other funds line 1+2+3
(4) 2009 A.S.. Liabilities, Surplus, and other funds line 9
(5) (2)+(3)+(4)
(6) [(3)+(4)]/(2)
(7)
(8) A.S.. Statement of Income line 9
(9) A.S.. Statement of Income line 10
(10) A.S.. Statement of Income line 24
(11) (8)+(9)+(10)
(12) (11)/(7)
(13) From exhibit 6 - investment income tax rate
(14) (12)*[1-(13)]
(15) From IEE
(16) (15) * selected ratio from exhibit 3: 2.70
(17) From IEE
(18) From IEE
(19) (16)+(17)+(18)
(20) [(17)+(18)]/(16)
(21) (14)*[1+(21)]/[1+(6)]
(22) average GAP policy has a two month lag in collection of premium. Therefore investable assets are reduced by 1/6 of the unearned premium reserve

ARCH INSURANCE COMPANY
GAP Program

Tax Rate on Investment Income

	Investment income category	(A) Amount	(B) Tax Rate	(C) % full rate	(D) % of remainder prorated	(E) Taxes	(F) Effective tax rate
(1)	Taxable Bonds	9,477,576	35%	100%	0%	3,317,152	35.0%
(2)	Non-Taxable	16,134,088	35%	0%	100%	847,040	5.3%
(3)	Stocks	89,013	35%	30%	70%	12,618	14.2%
(4)	All Others	2,985,872	35%	100%	0%	1,045,055	35.0%
(5)	Total	28,686,549				5,221,864	18.2%
(6)	Investment Deductions	1,196,313	35%	100%	0%	418,710	35.0%
(7)	net Investment Income Earned	27,490,236				4,803,154	17.5%

All amounts from Exhibit of Net Investment Income
(1) All at full rate
(2) x% at full rate, (1-x)% *15% at full rate
(3) x% at full rate, (1-x)% *15% at full rate
(4) full rate
(5) (2)+(3)+(4)
(6) taxed at full rate
(7) (5)-(6)

ARCH INSURANCE COMPANY
GAP Program

Development of 0-60 month base rates

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	Written Certificates	Agreement Period Paid Loss and ALAE	Ultimate Agreement Period Loss and ALAE	Accident Period Ultimate Pure Premium	Trend factor	Trended Pure Premium	Permissible Loss Ratio	Indicated Rate
2003	35,021	1,103,368	1,103,368	32	118.5%	37	72.4%	52
2004	33,853	860,988	877,135	26	115.1%	30	72.4%	41
2005	19,780	600,743	639,363	32	111.7%	36	72.4%	50
2006	28,154	908,512	1,149,014	41	108.5%	44	72.4%	61
2007	34,172	600,385	1,314,780	38	105.3%	41	72.4%	56
2003 to 2007	150,980	4,073,996	5,083,660			38	72.4%	$ 52
2003 to 2005	88,654	2,565,099	2,619,866			34	72.4%	$ 47
Selected Base Rate								$ 50

(1) Written Certificates from internal company data
(2) Paid Loss and ALAE from internal company data reports
(3) From exhibit 8 0 to 60 loss dev
(4) (3) divided by (1)
(5) Trended at annual rate of 3.0% to average agreement date 3/31/2009 based on rates remaining in effect for 1 year
(6) (5) times (4)
(7) From exhibit 1
(8) (6) divided by (7)

ARCH INSURANCE COMPANY
GAP Program

Countrywide GAP Loss development - Agreement Quarter, Terms from 0 to 60 months

As of (months)"

Agreement Year	Agreement Quarter	3	6	9	12	15	18	21	24	27	30	33	36	39	42	45	48	51	54	ITD	Development Factor	Ultimate
2001	3																			-	1.0000	-
2001	4	5,284	39,763	72,907	105,813	145,931	177,869	204,529	236,056	263,643	290,480	312,986	344,194	358,156	369,117	373,648	373,648	374,403	378,481	378,804	1.0000	378,804.00
2002	1	1,000	14,543	45,353	85,607	122,204	145,764	178,065	210,555	253,143	268,668	312,993	332,049	345,855	348,185	354,528	358,173	360,052	360,052	362,357	1.0000	362,357.00
2002	2	820	26,215	48,290	97,058	128,960	158,753	176,010	225,501	250,147	285,768	311,827	329,739	337,771	346,734	348,648	351,259	353,656	353,656	353,656	1.0000	353,656.00
2002	3	894	27,746	63,378	109,203	145,063	212,164	263,669	300,030	315,261	342,291	357,058	370,040	376,543	383,184	391,157	392,516	392,516	392,516	392,516	1.0000	392,516.00
2002	4	-	41,814	71,476	107,542	132,276	182,600	200,501	246,205	259,643	276,500	291,058	297,807	300,880	300,880	304,834	305,115	306,032	307,083	323,341	1.0000	323,341.00
2003	1	3,272	19,326	46,941	77,444	130,921	165,902	206,908	225,067	254,411	263,647	274,502	275,945	280,572	285,949	286,613	286,613	287,036	288,383	298,583	1.0000	298,583.00
2003	2	1,766	29,563	72,269	133,929	172,834	219,342	236,905	268,427	288,342	295,749	306,495	310,756	315,319	319,150	323,218	326,931	326,931	326,931	327,093	1.0000	327,093.00
2003	3	1,264	27,621	59,202	100,123	135,612	179,413	201,316	218,891	229,205	235,038	240,794	247,151	252,264	255,538	256,078	256,078	259,346	261,809	264,877	1.0000	264,877.00
2003	4	-	20,098	44,395	76,037	108,282	134,042	160,423	178,756	189,293	199,108	205,468	209,874	209,874	209,874	211,473	212,815	212,815	212,815	212,815	1.0000	212,815.00
2004	1	-	32,338	69,067	106,424	148,282	164,134	182,061	199,292	214,671	229,121	231,641	232,793	239,672	243,031	249,115	253,830	253,969	255,037	255,037	1.0140	258,603.06
2004	2	186	27,887	74,306	124,584	148,537	168,617	184,386	188,562	197,196	203,125	206,615	218,091	219,828	221,202	222,273	222,931	223,821		223,821	1.0169	227,612.30
2004	3	1,138	25,601	70,135	96,144	144,127	164,741	184,396	208,175	214,123	215,261	218,823	227,642	230,338	230,338	233,019	233,019			233,019	1.0205	237,800.43
2004	4	-	11,134	38,382	64,810	79,005	98,289	116,338	121,143	122,718	133,968	146,203	147,115	147,449	148,450	149,111				149,111	1.0269	153,119.01
2005	1	3,689	39,198	56,026	73,647	96,795	109,405	125,395	133,972	142,579	148,252	150,346	153,400	157,788	164,357					164,357	1.0379	170,591.51
2005	2	7,244	27,717	48,956	57,960	76,712	81,979	88,741	99,218	108,554	121,243	125,493	126,832	130,118						130,118	1.0498	136,592.62
2005	3	1,948	23,860	57,278	75,510	86,872	89,963	105,053	121,955	123,106	132,274	133,651	147,081							147,081	1.0665	156,868.19
2005	4	-	27,851	65,409	82,032	92,814	105,322	120,815	128,055	134,485	148,896	159,187								159,187	1.1013	175,310.64
2006	1	1,000	16,835	49,106	76,531	133,114	166,254	181,185	198,859	212,216	236,989									236,989	1.1358	269,162.15
2006	2	3,055	22,418	85,332	142,219	169,966	205,860	236,149	253,775	276,373										276,373	1.2342	341,091.09
2006	3	4,351	22,132	64,363	102,097	118,818	148,739	169,273	182,482											182,482	1.3061	238,332.48
2006	4	3,901	51,499	86,037	108,919	149,562	189,153	212,668												212,668	1.4127	300,428.49
2007	1	2,988	26,876	73,505	140,998	193,386	227,916													227,916	1.5933	363,142.65
2007	2	6,604	31,451	89,900	138,956	181,792														181,792	1.9211	349,236.75
2007	3	4,962	32,296	55,591	108,864															108,864	2.5065	272,870.75
2007	4	4,064	20,035	81,813																81,813	4.0278	329,529.51
2008	1	2,424	27,810																	27,810	10.7507	298,978.08
2008	2	-																		-	124.0343	-

Development Factors

Agreement Year	Agreement Quarter	3 to 6	6 to 9	9 to 12	12 to 15	15 to 18	18 to 21	21 to 24	24 to 27	27 to 30	30 to 33	33 to 36	36 to 39	39 to 42	42 to 45	45 to 48	48 to 51	51 to 54	54 to ITD
2001	3	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	
2001	4	7.53	1.83	1.45	1.38	1.22	1.15	1.15	1.12	1.10	1.08	1.10	1.04	1.03	1.01	1.00	1.00	1.01	
2002	1	14.54	3.12	1.89	1.43	1.19	1.22	1.18	1.20	1.06	1.16	1.06	1.04	1.01	1.02	1.01	1.01	1.00	
2002	2	31.97	1.84	2.01	1.33	1.23	1.11	1.28	1.11	1.14	1.09	1.06	1.02	1.03	1.01	1.01	1.01	1.00	
2002	3	31.04	2.28	1.72	1.33	1.46	1.24	1.14	1.05	1.09	1.04	1.04	1.02	1.02	1.02	1.00	1.00	1.00	
2002	4	1.00	1.71	1.50	1.23	1.38	1.10	1.23	1.05	1.06	1.05	1.02	1.01	1.00	1.01	1.00	1.00	1.00	
2003	1	5.91	2.43	1.65	1.69	1.27	1.25	1.09	1.13	1.04	1.04	1.01	1.02	1.02	1.00	1.00	1.00	1.00	
2003	2	16.74	2.44	1.85	1.29	1.27	1.08	1.13	1.07	1.03	1.04	1.01	1.01	1.01	1.01	1.01	1.00	1.00	
2003	3	21.85	2.14	1.69	1.35	1.32	1.12	1.09	1.05	1.03	1.02	1.03	1.02	1.01	1.00	1.00	1.01	1.01	
2003	4	1.00	2.21	1.71	1.42	1.24	1.20	1.11	1.06	1.05	1.03	1.02	1.00	1.00	1.01	1.01	1.00	1.00	
2004	1	1.00	2.14	1.54	1.39	1.11	1.11	1.09	1.08	1.07	1.01	1.00	1.03	1.01	1.03	1.02	1.00	1.00	
2004	2	149.93	2.66	1.68	1.19	1.14	1.09	1.02	1.05	1.03	1.02	1.06	1.01	1.01	1.00	1.00	1.00		
2004	3	22.50	2.74	1.37	1.50	1.14	1.12	1.13	1.03	1.01	1.02	1.04	1.01	1.00	1.01	1.00			
2004	4	1.00	3.45	1.69	1.22	1.24	1.18	1.04	1.01	1.09	1.09	1.01	1.00	1.01	1.00				
2005	1	10.63	1.43	1.31	1.31	1.13	1.15	1.07	1.06	1.04	1.01	1.02	1.03	1.04					
2005	2	3.83	1.77	1.18	1.32	1.07	1.08	1.12	1.09	1.12	1.04	1.01	1.03						
2005	3	12.25	2.40	1.32	1.15	1.04	1.17	1.16	1.01	1.07	1.01	1.10							
2005	4	1.00	2.35	1.25	1.13	1.13	1.15	1.06	1.05	1.11	1.07								
2006	1	16.84	2.92	1.56	1.74	1.25	1.09	1.10	1.07	1.12									
2006	2	7.34	3.81	1.67	1.20	1.21	1.15	1.07	1.09										
2006	3	5.09	2.91	1.59	1.16	1.25	1.14	1.08											
2006	4	13.20	1.67	1.27	1.37	1.26	1.12												
2007	1	8.99	2.73	1.92	1.37	1.18													
2007	2	4.76	2.86	1.55	1.31														
2007	3	6.51	1.72	1.96															
2007	4	4.93	4.08																
2008	1	11.47																	
Average		15.33	2.41	1.57	1.33	1.21	1.14	1.11	1.07	1.07	1.05	1.03	1.02	1.01	1.01	1.00	1.00	1.00	
Average last 8		7.79	2.84	1.59	1.30	1.17	1.13	1.09	1.05	1.07	1.03	1.03	1.02	1.01	1.01	1.01	1.00	1.00	
Average last 4		6.92	2.85	1.67	1.30	1.23	1.12	1.08	1.05	1.10	1.03	1.03	1.02	1.01	1.01	1.01	1.00	1.00	
Wtd. Average		11.54	2.32	1.59	1.33	1.22	1.14	1.12	1.08	1.07	1.05	1.04	1.02	1.01	1.01	1.01	1.00	1.00	
Wtd. Average Last 8		7.25	2.62	1.58	1.30	1.19	1.13	1.08	1.05	1.07	1.03	1.03	1.02	1.01	1.01	1.01	1.00	1.00	
Wtd. Average 4		6.18	2.72	1.63	1.31	1.22	1.13	1.08	1.06	1.11	1.03	1.03	1.02	1.01	1.01	1.01	1.00	1.00	
Selected		11.5373	2.6691	1.6069	1.3048	1.2057	1.1279	1.0816	1.0583	1.0866	1.0313	1.0326	1.0160	1.0114	1.0108	1.0062	1.0035	1.0029	1.0140
CDF		124.0343	10.7507	4.0278	2.5065	1.9211	1.5933	1.4127	1.3061	1.2342	1.1358	1.1013	1.0665	1.0498	1.0379	1.0269	1.0205	1.0169	1.0140

ARCH INSURANCE COMPANY
GAP Program

Development of 61-72 month base rates

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	Written Certificates	Agreement Period Paid Loss and ALAE	Ultimate Agreement Period Loss and ALAE	Accident Period Ultimate Pure Premium	Trend factor	Trended Pure Premium	Permissible Loss Ratio	Indicated Rate
2003	16,312	1,035,649	1,035,649	63	118.5%	75	72.4%	104
2004	19,495	1,109,485	1,130,193	58	115.1%	67	72.4%	92
2005	16,261	950,525	1,116,631	69	111.7%	77	72.4%	106
2006	33,172	2,063,213	3,097,831	93	108.5%	101	72.4%	140
2007	44,113	1,257,118	4,747,723	108	105.3%	113	72.4%	157
2003 to 2007	129,353	6,415,990	11,128,027			94	72.4%	$ 130
2003 to 2005	52,068	3,095,659	3,282,474			73	72.4%	$ 100
Selected Base Rate								$ 95

(1) Written Certificates from internal company data
(2) Paid Loss and ALAE from internal company data reports
(3) From exhibit 10 61 to 72 loss dev
(4) (3) divided by (1)
(5) Trended at annual rate of 3.0% to average agreement date 3/31/2009 based on rates remaining in effect for 1 year
(6) (5) times (4)
(7) From exhibit 1
(8) (6) divided by (7)

ARCH INSURANCE COMPANY
GAP Program

Countrywide GAP Loss development - Agreement Quarter, Terms from 61 to 72 month terms

As of (months)"

Agreement Year	Agreement Quarter	3	6	9	12	15	18	21	24	27	30	33	36	39	42	45	48	51	54	ITD	Development Factor	Ultimate
2001	3																			-	1.0000	-
2001	4	1,539	5,085	42,112	51,968	73,783	105,791	126,940	164,367	184,213	217,867	225,707	237,445	246,181	257,532	264,126	277,653	289,690	289,807	292,291	1.0000	292,291.00
2002	1	3,333	5,329	18,840	46,405	76,941	95,679	108,494	146,356	192,635	214,922	229,712	244,801	256,294	257,247	262,921	266,436	272,308	272,662	272,662	1.0000	272,662.00
2002	2	736	12,487	28,342	42,586	73,891	103,687	133,217	173,373	192,515	218,817	242,338	250,863	262,110	267,985	274,216	289,687	292,590	292,590	293,848	1.0000	293,848.00
2002	3	-	36,819	58,657	94,820	105,135	139,492	217,036	253,431	283,299	300,510	326,227	345,872	351,376	358,094	365,160	373,098	375,104	377,458	378,864	1.0000	378,864.00
2002	4	-	14,760	26,688	49,895	93,505	116,286	141,676	171,008	182,810	192,579	205,135	223,248	233,254	246,662	246,662	246,662	248,204	248,459	248,459	1.0000	248,459.00
2003	1	-	-	10,310	29,762	47,225	66,680	98,120	130,572	143,003	168,529	180,520	204,472	208,430	209,949	209,949	217,856	219,895	226,559	232,293	1.0000	232,293.00
2003	2	-	15,659	38,484	75,791	117,581	135,916	177,071	185,482	211,034	233,011	238,132	255,375	262,949	265,806	265,806	268,341	274,933	280,175	280,269	1.0000	280,269.00
2003	3	-	4,668	31,320	72,085	86,984	115,391	157,606	178,967	203,339	222,786	243,570	254,302	263,836	270,295	272,912	272,912	274,163	275,415	278,549	1.0000	278,549.00
2003	4	-	11,983	24,590	41,850	66,367	94,954	120,401	151,762	159,118	165,225	179,330	200,315	216,411	221,671	229,084	241,113	241,113	241,113	244,538	1.0000	244,538.00
2004	1	-	20,666	32,971	58,486	129,955	145,008	167,252	194,423	218,483	224,327	232,270	238,796	248,707	268,520	276,071	276,569	279,530	281,260	281,260	1.0070	283,229.42
2004	2	9,634	24,215	34,168	80,044	133,709	165,902	198,235	223,967	288,846	307,227	327,772	348,197	360,582	379,990	394,393	400,723	405,520		405,520	1.0149	411,549.01
2004	3	-	23,389	49,675	65,751	89,235	121,156	135,453	151,532	161,628	185,337	213,761	225,661	235,098	257,499	263,495	267,944			267,944	1.0234	274,209.82
2004	4	-	12,104	27,636	51,606	64,440	96,958	105,204	105,204	116,356	122,222	127,528	131,257	131,257	151,015	154,761				154,761	1.0416	161,205.13
2005	1	-	4,917	33,283	47,913	61,591	92,120	106,053	112,391	113,049	128,847	141,807	151,690	159,677	159,711					159,711	1.0680	170,569.70
2005	2	-	6,051	22,357	67,155	86,474	111,962	116,545	145,648	150,872	162,177	175,498	178,032	182,232						182,232	1.1324	206,355.43
2005	3	-	4,303	11,075	29,893	44,080	54,485	59,654	92,369	92,369	105,424	112,613	116,824							116,824	1.1730	137,033.78
2005	4	1,900	8,365	117,494	166,461	231,854	268,640	323,828	370,062	398,879	453,250	491,758								491,758	1.2255	602,672.53
2006	1	9,196	35,038	91,609	162,872	272,205	391,454	492,674	568,783	640,956	689,436									689,436	1.3229	912,076.38
2006	2	-	24,434	123,808	241,207	311,826	399,429	461,919	596,349	660,775										660,775	1.4516	959,202.01
2006	3	204	41,515	85,827	151,686	202,391	252,108	329,274	394,964											394,964	1.5821	624,872.35
2006	4	-	23,378	67,249	135,596	185,813	258,015	318,038												318,038	1.8918	601,680.05
2007	1	3,222	47,127	96,366	167,384	270,178	405,808													405,808	2.2848	927,206.63
2007	2	-	37,223	122,049	273,231	438,703														438,703	3.0495	1,337,825.05
2007	3	-	20,410	130,111	248,685															248,685	4.4929	1,117,311.45
2007	4	1,000	45,251	163,922																163,922	8.3294	1,365,379.44
2008	1	3,412	19,170																	19,170	26.7434	512,671.21
2008	2	-																		-	882.0344	-

Development Factors

Agreement Year	Agreement Quarter	3 to 6	6 to 9	9 to 12	12 to 15	15 to 18	18 to 21	21 to 24	24 to 27	27 to 30	30 to 33	33 to 36	36 to 39	39 to 42	42 to 45	45 to 48	48 to 51	51 to 54	54 to ITD
2001	3	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	
2001	4	3.30	8.28	1.23	1.42	1.43	1.20	1.29	1.12	1.18	1.04	1.05	1.04	1.05	1.03	1.05	1.04	1.00	
2002	1	1.60	3.54	2.46	1.66	1.24	1.13	1.35	1.32	1.12	1.07	1.07	1.05	1.00	1.02	1.01	1.02	1.00	
2002	2	16.97	2.27	1.50	1.74	1.40	1.28	1.30	1.11	1.14	1.11	1.04	1.04	1.02	1.02	1.06	1.01	1.00	
2002	3	1.00	1.59	1.62	1.11	1.33	1.56	1.17	1.12	1.06	1.09	1.06	1.02	1.02	1.02	1.02	1.01	1.01	
2002	4	1.00	1.81	1.87	1.87	1.24	1.22	1.21	1.07	1.05	1.07	1.09	1.04	1.06	1.00	1.00	1.01	1.00	
2003	1	1.00	1.00	2.89	1.59	1.41	1.47	1.33	1.10	1.18	1.07	1.13	1.02	1.01	1.00	1.04	1.01	1.03	
2003	2	1.00	2.46	1.97	1.55	1.16	1.30	1.05	1.14	1.10	1.02	1.07	1.03	1.01	1.00	1.01	1.02	1.02	
2003	3	1.00	6.71	2.30	1.21	1.33	1.37	1.14	1.14	1.10	1.09	1.04	1.04	1.02	1.01	1.00	1.00	1.00	
2003	4	1.00	2.05	1.70	1.59	1.43	1.27	1.26	1.05	1.04	1.09	1.12	1.08	1.02	1.03	1.05	1.00	1.00	
2004	1	1.00	1.60	1.77	2.22	1.12	1.15	1.16	1.12	1.03	1.04	1.03	1.04	1.08	1.03	1.00	1.01	1.01	
2004	2	2.51	1.41	2.34	1.67	1.24	1.19	1.13	1.29	1.06	1.07	1.06	1.04	1.05	1.04	1.02	1.01		
2004	3	1.00	2.12	1.32	1.36	1.36	1.12	1.12	1.07	1.15	1.15	1.06	1.04	1.10	1.02	1.02			
2004	4	1.00	2.28	1.87	1.25	1.50	1.09	1.00	1.11	1.05	1.04	1.03	1.00	1.15	1.02				
2005	1	1.00	6.77	1.44	1.29	1.50	1.15	1.06	1.01	1.14	1.10	1.07	1.05	1.00					
2005	2	1.00	3.69	3.00	1.29	1.29	1.04	1.25	1.04	1.07	1.08	1.01	1.02						
2005	3	1.00	2.57	2.70	1.47	1.24	1.09	1.55	1.00	1.14	1.07	1.04							
2005	4	4.40	14.05	1.42	1.39	1.16	1.21	1.14	1.08	1.14	1.08								
2006	1	3.81	2.61	1.78	1.67	1.44	1.26	1.15	1.13	1.08									
2006	2	1.00	5.07	1.95	1.29	1.28	1.16	1.29	1.11										
2006	3	203.50	2.07	1.77	1.33	1.25	1.31	1.20											
2006	4	1.00	2.88	2.02	1.37	1.39	1.23												
2007	1	14.63	2.04	1.74	1.61	1.50													
2007	2	1.00	3.28	2.24	1.61														
2007	3	1.00	6.37	1.91															
2007	4	45.25	3.62																
2008	1	5.62																	
	Average	11.80	3.58	1.91	1.48	1.31	1.22	1.20	1.10	1.10	1.07	1.06	1.03	1.04	1.02	1.02	1.01	1.01	
	Average last 8	34.13	3.49	1.85	1.47	1.32	1.18	1.21	1.07	1.10	1.08	1.05	1.04	1.05	1.02	1.02	1.01	1.01	
	Average last 4	13.22	3.83	1.98	1.48	1.35	1.24	1.20	1.08	1.11	1.08	1.04	1.03	1.07	1.03	1.02	1.01	1.01	
	Wtd. Average	14.76	3.07	1.85	1.48	1.32	1.23	1.19	1.12	1.10	1.07	1.06	1.04	1.04	1.02	1.02	1.01	1.01	
	Wtd. Average Last 8	32.98	3.21	1.85	1.47	1.33	1.21	1.20	1.09	1.10	1.08	1.05	1.04	1.05	1.02	1.02	1.01	1.01	
	Wtd. Average 4	27.66	3.42	1.98	1.51	1.36	1.23	1.20	1.10	1.10	1.08	1.04	1.03	1.07	1.03	1.02	1.01	1.01	
	Selected	32.9814	3.2107	1.8539	1.4733	1.3347	1.2077	1.1958	1.0899	1.0973	1.0795	1.0448	1.0359	1.0603	1.0253	1.0178	1.0084	1.0078	1.0070
	CDF	882.0344	26.7434	8.3294	4.4929	3.0495	2.2848	1.8918	1.5821	1.4516	1.3229	1.2255	1.1730	1.1324	1.0680	1.0416	1.0234	1.0149	1.0070

Arch Insurance Company
Guaranteed Auto Protection Program
Rate Filing Memorandum

Arch Insurance Company (ARCH) is filing a new Guaranteed Auto Protection (GAP) program. GAP programs provide debt cancellation agreements that cancel a borrower's indebtedness that exceeds a primary insurer's settlement in the event of a total theft or total constructive loss.

This program is being filed countrywide. This program is an addition to, not a replacement of, our existing GAP program.

The new program is more flexible than the currently approved program. The new program provides additional settlement options and allows more flexibility in rating in order to more accurately price individual portfolios.

This new GAP program provides for a base rate for the most common coverage levels. There are then several optional endorsements that modify items such as the settlement calculation, allowable loan to value (LTV) limits, or other contract features.

The proposed rates for this program were developed by reviewing the experience of our current program adjusted to the proposed coverage level.

Supporting Exhibits

Exhibit 1. Development of permissible loss ratio (PLR) exhibit. This exhibit combines the expenses from exhibit 2, the target rate of return from exhibit 3 and investment income from exhibit 4 to develop the permissible loss ratio which is used in the development of rates.

Exhibit 2. Summary of insurance expense experience (IEE) data for 2003 through 2007 for Credit (line 28) and Total – All Lines. Due to the commission agreements that we will be signing with our agents, we have selected an expected commission level significantly lower than the historic commission level for all credit lines combined.

Exhibit 3. Development of target underwriting profit provision. Relies on industry return on equity (ROE) from exhibit 4 and expected investment income from exhibit 5.

Exhibit 4. Industry five-year ROE from Best's Aggregates and Averages

Exhibit 5. Development of expected investment income. Relies on information from Arch annual statements and tax rate from Exhibit 6. Initial development of investment income is based on Arch – All Lines Combined experience. The

expected investment income is then adjusted to the credit line of business reserves to surplus levels, which are much lower for credit than for all lines combined.

Exhibit 6. Calculation of tax rates on investment income.

Exhibit 7. Exhibits 7 through 10 show the development of the base rates for the 0 to 60 month term plans and 61 to 72 month plan terms. These indications were developed by modifying Arch historic claims experience from the current program to the base coverage level provided in our new program. 73 to 84 month terms are developed based on a review of sample amortization curves due to limited data.

www.archinsurance.com

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January 1, 2008

Arch Insurance Company
NAIC: #11150
Letter of Authorization
Filing of Forms, Rates and Rules

Dear Sir or Madame:

In accordance with the applicable statutes and regulations in your state, Wesley Pohler and Westmont Associates are hereby authorized to file form, rate and rate filings on behalf of Arch Insurance Company.

Very truly yours,

Carol Kennedy

Carol Kennedy
Vice President & Director of Compliance

October 24, 2008

The Department of Insurance
Property and Casualty Division
Forms and Rates Review

RE: Arch Insurance Company NAIC# 11150 FEIN 43-0990710
Guaranteed Auto Protection Program
New Program Submission - Rates
Company Filing Number: ARCH-08-217-R
Effective Date: Upon Earliest Possible Approval and/or Acknowledgement

To Whom It May Concern:

Enclosed please find Arch Insurance Company's (Arch) Guaranteed Auto Protection ("GAP") new program rate submission. The filing contained herein constitutes a filing of a new program for Arch and does not replace any previous filed or approved materials. A letter permitting Westmont Associates, Inc. to submit this filing on Arch's behalf is enclosed.

Arch is filing its new Guaranteed Auto Protection program (GAP). GAP programs provide debt cancellation agreements that cancel a borrower's indebtedness that exceeds a primary insurer's settlement in the event of a total theft or total constructive loss. Please refer to the attached filing memorandum for additional details.

Please find attached the Company's GAP rating plan for your review.

The forms to be used in coordination with the attached rates have been filed under separate cover as Company filing number ARCH-08-217-F.

Your approval or acknowledgement otherwise of this submission is respectfully requested. Thank you for your attention to this matter.

Respectfully submitted,

Wesley Pohler

Wesley Pohler
AVP
wes@westmontlaw.com

Enc.

Cc: M. O'Brien
C. Kennedy